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Six Decades of Debt Management—Part II
An Early Look at Resort Business

BUSINESS REVIEW

is produced in the Department of Research. Clay J. Anderson was primarily responsible for the article "Six Decades of Debt Management"—Part II, and J. Allan Irvine for "An Early Look at Resort Business." The authors will be glad to receive comments on their articles.

Requests for additional copies should be addressed to the Department of Public Information, Federal Reserve Bank of Philadelphia, Philadelphia 1, Pennsylvania.

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SIX DECADES OF DEBT MANAGEMENT

Part II

This is the second of a series of articles dealing with debt management during the past six decades. The purpose of the articles is to describe the evolution of the philosophy, objectives, and techniques of debt management as expressed by Treasury officials—not to evaluate them.¹ The first article (which appeared in the May 1961 *Business Review*) was concerned primarily with central bank functions performed by the Treasury before establishment of the Federal Reserve System and with debt management policies in financing World War I. This article covers the period 1920–1950. It deals mainly with debt reduction in the twenties and debt management policies and techniques during a prolonged period of deficit financing arising from the most severe depression and the most expensive war in our history. The early post-World War II period is included because wartime policies continued to be a predominant influence on debt management for several years after the war.

DEBT REDUCTION IN THE TWENTIES

Debt management during the twenties was concerned primarily with paying off as much of the debt as possible and refunding the remainder into a more manageable pattern of maturities carrying lower interest rates. A Treasury official stated that the debt management program contemplated, "A steady reduction of debt by retirement, and . . . a reduction of the burden by refunding as rapidly as possible securities bearing high rates of interest with those bearing a lower rate."

Debt retirement

The Secretary of the Treasury favored rigid economy in Government expenditures so that funds would be available for debt retirement. The debt was reduced from a peak of \$26.6 billion in 1919 to \$16.8 billion in 1929, a decrease of nearly \$10 billion. A substantial reduction in the debt, in his opinion, would improve the Gov-

ernment's credit, facilitate management of its finances, and strengthen the money and capital markets. Moreover, a large public debt is a handicap in emergencies; hence debt reduction would pave the way for debt expansion should an emergency require it.

Both legislation and Treasury policy facilitated debt retirement. Legislation, effective in 1920, established a sinking fund for purchase and retirement of Treasury securities before maturity, and provided that repayments on foreign loans should be used for debt retirement. Short-term maturities were arranged at quarterly tax payment dates in order to absorb surplus revenue for debt redemption.

The Treasury recognized that economic conditions would and should have some influence on the rate of debt retirement. Repayment might have disturbing effects because of the redistribution of income among classes. The Treasury pointed out that some would receive more as owners of Government securities than they paid out in taxes for debt retirement; others would

¹ It should be noted that the views expressed in the period covered by the article do not necessarily reflect the current views of Treasury officials.

pay more than they received. The rate of debt retirement should not be so rapid, therefore, as to result in "undue disturbance to business and general economic conditions." It was also recognized that a period of prosperity is an expedient time to pay off some of the debt. In the words of a Treasury official: "The time to repair your roof is in good weather, not when it is raining. The time to pay your debts is when you can."

The refunding program

A second major goal of debt management during the twenties was to refund a large part of the debt that could not be retired.

One objective of the refunding program was to reduce the interest burden of the debt. Even though lower rates were an objective, the Treasury was aware that new issues could be floated successfully only at rates that would be competitive in the money and capital markets.

Another objective of the refunding program was a more convenient and satisfactory spacing of maturities. Among the important factors influencing maturities were: (1) Filling in "open dates," (2) absorbing the sinking fund and proceeds of foreign loans, (3) having some maturities fall on quarterly tax payment dates in order to minimize the impact of an excess of Treasury receipts over expenditures, and to assure that some of the excess would be used for debt retirement. Under the provisions of the sinking fund, retirements had to be made at an average cost not in excess of par and with a tendency for Treasury securities to go to a premium, retirements from the sinking fund could be facilitated by adequate maturities each year.

DEFICIT FINANCING IN THE THIRTIES

The decade of the thirties was ushered in by an unusually severe depression and, after partial

recovery, chronic stagnation persisted for the remainder of the period. A few figures may help to portray the magnitude of the decline in business activity and employment. Gross national product dropped from \$104 billion in 1929 to a depression low of \$56 billion; personal income from \$86 billion to \$47 billion; consumer expenditures from \$79 billion to \$46 billion; and plant and equipment expenditures from \$9 billion to \$2 billion. Unemployment rose from 1.6 million to 12.8 million, or nearly 25 per cent of the labor force. Total bank loans, reflecting the sharp drop in business activity, decreased over one-half.

Treasury surpluses and debt reduction in the twenties gave way to deficits and debt expansion in the thirties. The Federal Government operated at a deficit in every year of the decade except 1930, and outstanding debt, direct and guaranteed, rose to nearly \$48 billion at the end of 1939. The debt increase exceeded the total deficit because of special issues to trust funds and guaranteed obligations issued by some of the newly established credit agencies.

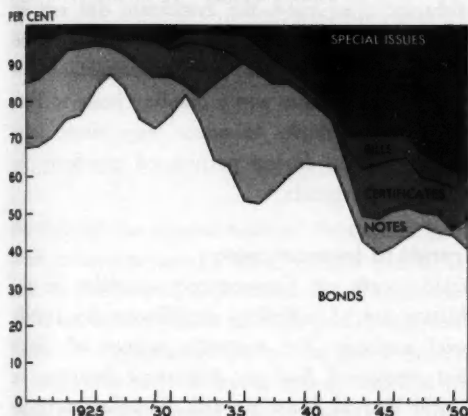
Debt management policies in the thirties were fashioned both by technical considerations and by economic objectives. The principal goals, according to the Secretary of the Treasury, were to broaden ownership of Government securities; restore the money supply, which had been reduced by deflation accompanying the depression; and to bring about lower interest rates on Government securities and fixed income obligations generally, in order to help stimulate fixed investment and the economy as a whole.

Composition of debt

Maturity composition of the debt shifted considerably during the decade. Average maturity of the debt lengthened somewhat in fiscal 1931

as Treasury bonds outstanding increased both absolutely and relative to other types of securities. From 1932 to 1935, the debt was shortened as new cash was raised mainly by selling Treasury notes. In the latter half of the decade, a substantial increase in Treasury bonds outstanding brought another lengthening in average maturity of the debt. The proportion of debt accounted for by bonds rose from about one-half in 1935 to about 65 per cent by the end of 1939.

INTEREST-BEARING FEDERAL DEBT



Even though debt management was not aimed directly toward shortening maturities and building up liquidity, commercial banks took about 60 per cent of the net increase in marketable debt during the decade. Bank purchases of Treasury securities tended to expand the money supply.

A second significant shift in debt composition was in type of securities issued. The discount bill and a new type of savings bond were introduced, and special issues became of growing importance following establishment of the Social Security trust funds.

As was pointed out in the first article of this series, certificates of indebtedness were used in

World War I and in the twenties to smooth out the impact of Treasury receipts on bank reserves and the money market. Experience revealed, according to the Treasury, that for this purpose certificates had several disadvantages. Quarterly issues of certificates to cover expenditures until next quarter's tax receipts often resulted in excess working balances for considerable periods of time. These idle deposits were an expense to the Treasury because the rate paid on certificates was usually higher than the interest received on the deposits. (Payment of interest on demand deposits was permissible prior to 1933.)

A second disadvantage was that most of the certificates maturing each quarter were presented for redemption on the due date, whereas quarterly tax collections were spread over several days. The Treasury frequently had to borrow large sums from the Reserve Banks to meet these short-term deficits. Interest on this temporary borrowing added to the cost of Treasury financing.

A third difficulty in using certificates which could be issued only at a fixed coupon rate was determining a rate under varying market conditions that would result in a successful offering. Treasury officials were also concerned because banks, purchasing certificates mainly for the deposit temporarily acquired, often sold them a short time later at a discount from the offering price. It was feared that sales below offering price would have an adverse effect on the Government's credit. Because of these disadvantages, the Treasury requested and was granted authority in mid-1929 to issue a short-term discount bill.

The discount bill had several advantages over the certificate, according to the Treasury. Competitive bidding would make it possible to borrow at the lowest rate consistent with market conditions; issuing bills on a discount basis would

avoid the tendency of certificates to fall below issue price to the detriment of the Government's credit; and discount bills would provide banks and other institutions with a new instrument for investment of temporary surplus funds. The initial issue of Treasury bills was in December 1929, and the amount outstanding during the thirties ranged from a low of \$156 million to a high of \$2.4 billion.

A new type of savings bond authorized by legislative enactment was placed on sale in 1935. These bonds were offered at a discount, matured in 10 years, yielded nearly 3 per cent if held to maturity, and were redeemable after 60 days but with a penalty in the form of a lower return if redeemed before maturity. The total amount a single owner could purchase in a calendar year was limited. One purpose of issuing savings bonds was to broaden distribution of ownership of Treasury securities and to give more people a direct interest in finances of the Government.

Securities issued by Government corporations and credit agencies—some of which were guaranteed as to principal or interest or both—made their appearance during the thirties. To facilitate coordination of debt operations in both direct and guaranteed securities, terms and conditions of guaranteed issues had to be approved by the Secretary of the Treasury.

Special issues became of increasing importance in the latter part of the decade. A number of trust funds were set up as a result of Social Security legislation. Investment of most trust funds was placed under supervision of the Secretary of the Treasury, and investments were limited primarily to Government securities. The bulk of the trust funds was put in special Treasury issues because regulations for several of the funds required a higher yield than could be obtained on marketable Government securities.

Other advantages of special issues, according to the Treasury, were no brokerage commissions; the bond market was not disturbed by purchases and sales of large blocks of marketable securities; and it was not necessary to consider short-term market fluctuations in acquiring special issues.

Special certificates were a second type of Treasury obligation which appeared in the thirties. In March 1932, a special one-year, 2 per cent certificate redeemable on 60 days' notice was issued "to promote the release of hoarded currency"; however, the certificate did not attract much hoarded currency, total sales amounting only to \$35 million. A more important type of special certificate was a one-day issue to Federal Reserve Banks to cover very short term deficits arising during periods of quarterly income tax payments.

Trends in interest rates

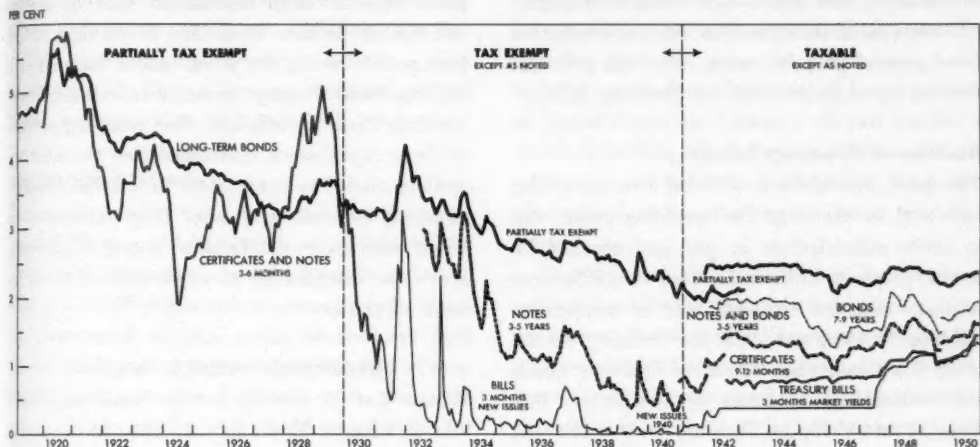
Yield trends on Government securities in the thirties are of sufficient significance to justify brief analysis. The maturity pattern of yields that developed had an important bearing on World War II financing and the inflation problem in the postwar period.

Interest rates dropped sharply with the onset of the depression in late 1929. Except for sharp increases, such as in the financial crises of late 1931 and spring of 1933, and in 1937, the general trend of market rates was downward during most of the decade. The downward trend reflected a persistent low level of business activity and weak demand for credit.

The downward trend in interest rates was accompanied by a marked widening of the spread between yields on short- and long-term maturities. Short-term rates dropped sharply in the early thirties and remained far below long-term rates for the remainder of the decade. Prior to

YIELDS ON UNITED STATES GOVERNMENT SECURITIES

Monthly Averages of Daily Figures



the thirties the spread between short- and long-term rates was usually much narrower and, except in periods of depression, short rates were often above the yields on high-grade, long-term bonds. The extremely low level of short- relative to long-term rates reflected intense demand for liquidity, apprehension over the safety of investments created by the depression and financial crisis in the early thirties, and economic stagnation which persisted during the remainder of the decade. Many banks had experienced runs by depositors, and bank officials were determined to keep their banks in a highly liquid condition. Excess reserves created by a large gold inflow were generally regarded as temporary; an outflow of gold might put a drain on reserves at any time. In this environment, excess reserves were built up and reached the unusually high level of nearly \$7 billion in 1940. Over one-half of the total was held by central reserve city member banks in New York. The large volume of excess reserves probably reflected also the extremely low

yields on short-term Government securities that prevailed during most of the period.

An unusual development in the thirties was negative yields on Government securities. In mid-1939, when yields on Government securities were at an all-time low up to that time, the seven shortest issues of Treasury notes and two of the shortest issues of Treasury bonds were selling at prices resulting in negative yields. A similar situation prevailed in 1940. Weekly offerings of three-month Treasury bills were allotted above par at various times in 1938, 1939, and 1940.

Negative yields reflected more than huge excess reserves and a keen demand for short-term Government securities. According to Treasury officials, Treasury notes and bonds approaching first call or maturity sometimes sold at prices affording negative yields because of potential rights value to subscribe to new securities which might be offered in exchange for called or maturing issues. Occasionally, Treasury notes had been refunded on advantageous terms three

months in advance of actual maturity. Treasury bills, however, carried no preferential right to subscribe to new issues. According to Treasury officials, special tax situations, such as exemption from general property taxes, were the principal reasons for negative yields on Treasury bills.

Auction of Treasury bonds

The usual procedure in offering new issues for cash and in exchange for maturing issues was to invite subscriptions at par and accrued interest. Treasury bills, introduced in 1929, were sold at a discount and auctioned by competitive bidding. In 1934 and 1935, the Treasury experimented with offering long-term Treasury bonds and Federal agency issues by competitive bidding. In mid-1935, the Treasury tried auctioning five cash offerings of bonds, each being a reopening of an outstanding issue. These offerings were of over 10 years' maturity and carried coupon rates of $2\frac{7}{8}$ and 3 per cent. In each case, tenders submitted substantially exceeded the amount offered, and the average issue price was above par.

Market reaction was favorable at first, but became less satisfactory as the auction technique continued to be used. Auctioning of securities other than bills was discontinued in 1935, after tenders totaling only \$86 million were received for a \$100 million Federal Farm Mortgage Corporation issue.

Experience with the auction technique of issuing agency and longer-term Treasury securities revealed several disadvantages, according to the Treasury. Initial distribution was sharply restricted because many banks and investors outside of the large financial centers did not consider themselves sufficiently familiar with the market to submit bids. Experience also demonstrated that a large portion of new issues awarded above the average price usually went to smaller

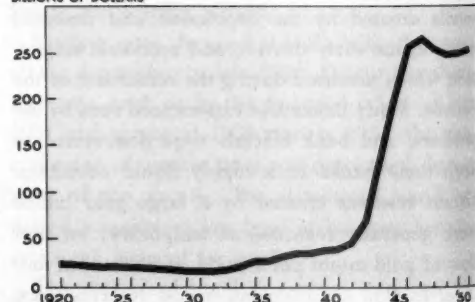
investors located outside of New York City. A major part of the awards below the average price went to large institutions such as banks and dealers in New York City. A growing belief that profits would be small under competitive bidding caused many investors to refrain from bidding. Treasury officials, after studying results of these experiments, concluded that the auction method tended to concentrate initial distribution of bonds in banks and other large investors—a result contrary to the Treasury's goal of striving for wider distribution in ownership of Government securities.

FINANCING WORLD WAR II

World War II was by far the most expensive war in history. From July 1, 1940 to June 30, 1946, the Federal Government spent \$387 billion, about 95 per cent going directly or indirectly for war and national defense. Less than one-half was derived from taxes, with the result that the Federal debt increased \$221 billion.

GROSS PUBLIC DEBT OUTSTANDING

Fiscal Years
BILLIONS OF DOLLARS



Debt management objectives

The paramount objective in planning the war financing program was to raise funds needed for war and national defense. Aside from that, debt management policies were directed toward

several economic and technical objectives—objectives often stated by Treasury officials.

The war financing program was based on three main underlying principles: minimizing the risk of inflation, tailoring Treasury securities to meet the needs of various groups of investors, and keeping interest cost at a reasonable level.

Minimizing inflation

The serious inflationary threat inherent in financing a major war was clearly recognized by the Treasury. The total value of all goods and services produced is paid out to someone in the form of wages and salaries, rents, interest and dividends, and profits; yet with a large part of total output going to the Government to prosecute war, a much smaller part would be available for civilian purchase. In essence, the problem of preventing inflation was one of diverting income as well as goods to Government for war purposes.

Two methods of diverting income from the public to the Government were stressed. Government expenditures should be financed as far as possible by taxation. Taxation diverts income to Government without leaving any claim that later may be exchanged directly or indirectly for goods and services. Recognizing, however, that war expenditures could hardly be financed entirely by taxation, the Treasury emphasized that as large a proportion of the remainder as possible should be obtained from current savings of the people. Borrowing from commercial banks was to be used only after "every effort has been made to finance the deficit from other sources."

One method of trying to maximize borrowings from nonbank sources was to promote vigorously the sale of securities to nonbank buyers. Another was to restrict purchases by commercial banks. Early in 1942, the Treasury adopted a policy of making long-term Treasury bonds ineligible for

commercial bank purchase except in limited amounts for investment of time deposits. In general, commercial banks were not permitted to buy bonds maturing in more than 10 years. Restricting bank purchases of longer-term bonds had the additional advantage of keeping banks in liquid condition. Treasury officials wanted to avoid disturbing effects that might arise if in the postwar period banks had to liquidate substantial amounts of long maturities to obtain funds for loans.

The Treasury also tried to limit indirect bank participation in the form of credit extension for permanent investment in Government securities. Commercial bankers were instructed not to make loans for speculative purchase of such securities, to decline subscriptions from customers apparently buying for speculative purposes, and to make only short-term loans to facilitate investment in Government securities.

The objective of covering borrowing needs from nonbank sources was only partially achieved. Of the \$221 billion increase in Government debt from mid-1940 to mid-1946, only \$132 billion was absorbed by nonbank investors. Federal Reserve and commercial bank holdings increased \$89 billion.

Tailoring securities to investor needs

Another major objective of the World War II borrowing program—often characterized by Treasury officials as second only to avoiding inflation—was that of tailoring securities to investor needs. A basket of securities was offered to appeal to a variety of investors, in contrast to World War I when reliance was placed primarily on the sale of bonds.

A detailed analysis of the potential market for Government securities was an important step in fashioning the borrowing program to investor

needs. The Treasury attempted to estimate expenditure-income flows, and pointed out that individuals and business firms accumulated liquid assets as a counterpart of the deficit. One of the main goals of debt management was to tap these savings and channel them back to the Treasury.

Officials estimated that the largest pool of savings was held by individuals; hence considerable attention was given to devising securities that would meet the needs of small investors. An essential requirement was to protect the small investor against loss should he need to convert his securities into cash, such as occurred following World War I. Nonmarketable Series E Savings Bonds with guaranteed cash redemption values were designed primarily to appeal to individuals who could save only moderate amounts out of current income. E Bonds were issued at a discount, matured in 10 years, yielded 2.9 per cent interest if held to maturity, and were redeemable at the option of the holder after 60 days. Total net purchases by a single owner in a calendar year were limited.

Series F and G Savings Bonds, the former issued at a discount and the latter at par, matured in 12 years and yielded a somewhat lower return, about 2½ per cent. F and G Bonds were intended for those with somewhat larger sums to invest. Defense Savings Stamps were placed on sale at post offices to encourage systematic saving of small sums which could later be used to purchase savings bonds. The payroll savings plan was introduced in the latter part of 1941 to promote sales of savings bonds, and by mid-1942 about 15 million employees in over 100,000 business firms were participating in the program.

The Treasury began issuing nontransferable savings notes in order to attract funds being accumulated by corporations to meet growing tax liabilities and help finance postwar reconversion.

The notes were acceptable at par and accrued interest in payment of Federal income taxes.

The major part of Treasury borrowing was in the form of marketable securities. A wide range of maturities were offered in order to appeal to different investor groups. Long-term bonds with a relatively high coupon rate were designed to tap savings of a more permanent nature such as funds of insurance companies, savings banks, and large private investors. It was expected that such investors would be willing to sacrifice some liquidity for a higher rate of return.

A substantial amount of borrowing took the form of short-term marketable securities. Short-term debt was designed for a twofold purpose. One was to tap depreciation reserves and other business funds not likely to be needed during the war. The other was to provide "greater fluidity in the money market." Mobility of funds was promoted by increasing the supply of 91-day Treasury bills, by the Federal Reserve Banks posting a ¾ of 1 per cent buying rate for Treasury bills, and resumption of the issue of certificates of indebtedness discontinued in 1934.

Treasury officials believed that a large volume of short-term securities would be beneficial both during the war and postwar reconversion period. Deposits could be shifted among banks and regions without strain on the money market. Once the war was over, holdings of short-term securities would enable business firms to obtain readily, additional funds needed for reconversion. Liquidity would thus facilitate reconversion and contribute to higher levels of production and employment in the postwar period.

A large volume of short-term securities was not believed to be inflationary. In the Treasury's view, length of time a security would be held depended primarily on convenience and future needs of the holder, and only to a minor extent

on maturity. A long-term issue afforded no assurance that a purchaser would hold the security longer than a short maturity or that the security would not be used as collateral for a loan from a bank. The Treasury pointed out that a holder liquidates a security whenever he thinks it is to his advantage, whatever the maturity.

Low interest rates

A third major objective of debt management policy was to finance the war at low interest rates and to avoid rising rates such as occurred during World War I. Treasury officials stated that low interest rates in addition to holding down the interest burden of financing the war would, on the whole, contribute to economic stability.

In 1942, the Treasury and the Federal Reserve agreed to establish a pattern of rates for Treasury borrowing ranging from $\frac{3}{8}$ of 1 per cent on Treasury bills to $2\frac{1}{2}$ per cent on long-term bonds—approximately the rate structure existing at the time. Maintaining this rate structure on Government securities enabled the Treasury to finance the war at a low interest cost, and avoided rising rates which in World War I had afforded an inducement to postpone buying Treasury bonds in order to get a higher return. An average rate of interest of 1.94 per cent on Federal debt outstanding in June 1945 as compared with 2.53 per cent in June 1939, indicates how well the low interest rate objective was achieved. A lower average rate in 1945 reflected in part a larger proportion of short-term securities. Experience in World War I was different, the average rate of interest on outstanding debt rising from 2.36 per cent in June 1914 to 4.22 per cent in June 1920.

In the opinion of the Treasury, low rates would have a stabilizing effect on business. Cap-

ital goods and housing expenditures, the types influenced significantly by interest rates, were effectively limited during the war by direct controls. In the postwar period, low rates would stimulate housing and capital expenditures, thus contributing to economic stability and full employment.

POSTWAR POLICIES

By the end of the war, nearly one-half of total output of goods and services was for defense purposes. Expectations that reconversion to a peacetime economy would result in a substantial drop in production and large-scale unemployment were widespread. As already mentioned, the Treasury thought its low interest-rate policy would provide a needed stimulus in the postwar period. Reconversion was effected more promptly and with less depressing effects than generally anticipated. Removal of controls soon after the war unleashed a backlog of demand and purchasing power, and the resulting surge in expenditures exerted strong and persistent upward pressure on output and prices. The basic problem proved to be one of dealing with inflation rather than deflation.

The Treasury entered the postwar period confronted with the problem of managing a debt of nearly \$280 billion. The debt was widely held and constituted an important part of total assets of most financial institutions. Debt management objectives for the remainder of the forties were similar to those pursued during the war: a stable market for Government securities, low interest rates, and avoidance of inflation.

Stable market for Government securities

A stable market for Government securities was a major goal of debt management in the postwar period. Treasury officials emphasized that a

sharp decline in Government securities prices such as occurred after World War I would have widespread repercussions on the economy, handicap financing of reconversion, and make it difficult to refinance the large volume of maturing debt. Furthermore, in view of the position of the United States as a world power, confidence in the credit of the United States was regarded as essential in order to underpin the world economic structure.

Low interest rates

The Treasury strongly favored continuation of a low interest-rate policy. Low rates were considered desirable in order to hold down the interest burden of the large debt. Another frequently stated reason was that low rates would encourage business confidence, stimulate capital and housing expenditures, and thus make an important contribution toward maintaining high levels of production and employment.

Low rates would not significantly contribute to inflation, according to the Treasury, because most types of credit are not sensitive to changes in interest rates. Higher rates were regarded as having some influence on long-term expenditures, such as capital and housing; however, use of monetary and fiscal tools—which operate on over-all demand and spending—with the vigor required to deal with excesses in certain sectors of the economy might set off a severe deflationary spiral.

Combating inflation

The Treasury believed other debt management techniques would be more effective than low rates in counteracting inflationary pressures. One of the principal techniques was concentrating debt redemption in issues held mainly by commercial banks. Redemption of such securities ex-

tinguished deposits and reduced the money supply at the disposal of the public.

In order to retire as much bank-held debt as possible, the Treasury used excess cash acquired in the Victory Loan drive, operating surpluses, and receipts from trust funds and the sale of savings bonds. The decline in bank holdings of Governments in the first 18 months after the war exceeded substantially the decrease in total debt outstanding. This reduction in bank holdings was facilitated, according to the Treasury, by its policy of maintaining a sizable part of the debt in short maturities.

Promoting sales of savings bonds was another debt management technique used to combat inflation. Selling savings bonds to the public was a two-edged weapon against inflation, according to the Treasury. Purchasing power was drained directly from consumers, and use of the funds obtained to retire bank-held debt reduced the money supply available for expenditure.

CONCLUDING COMMENTS

The period 1920–1950 embraced a decade of prosperity and debt reduction in the twenties; prolonged depression, deficits and debt expansion in the thirties; and a huge increase in the debt incurred in financing the most costly war in history.

Tremendous growth in the debt focused increasing attention on both technical and economic aspects of debt management. Introduction of the Treasury discount bill in 1929 to facilitate smoothing out the impact of Treasury operations on reserves and the money market, and experiments with selling long-term Treasury bonds and Federal agency issues at competitive bidding in the mid-thirties were among the more significant technical innovations. The Treasury also began tailoring its securities to investor needs.

Expansion of the Federal debt also focused attention on economic effects of debt management. In order to minimize the threat of inflation, the Treasury strongly urged that war expenditures be financed as much as possible out of current income. To the extent borrowing was necessary, funds should be obtained from nonbank sources. In the postwar period, redemption of securities

held mainly by banks was the principal debt management technique for counteracting inflationary pressures. Other economic goals of debt management were a stable market for Government securities to facilitate refunding operations required in handling the large debt; and low interest rates to hold down interest cost of the debt and to stimulate investment expenditures.



AN EARLY LOOK AT RESORT BUSINESS

Vacationers are on the move once more, and resort business has become big business. A brief, but none the less convincing, preview of summertime weather was all it took to spark that annual urge to relax, find a change of scenery, and have some fun and sun. Meanwhile, from summer resorts on the shorelines of New Jersey and Delaware and the mountain vacationlands of Pennsylvania comes word that landlords and merchants are all set to pack them in again this year.

In these areas of the Philadelphia Federal Reserve District, vacation dollars, spent in a rela-

tively short time, are the backbone of local economies. Bankers and businessmen, watching the situation closely, tell us the resort business has increased sharply since early June, is running close to seasonal expectations, and that another fine season appears to be in the making.

Transient business started late

As so often is the case, some early week ends were too cold or too wet to encourage heavy travel to a favorite spot. So, the 1961 resort season started later than some others. Memorial

Day seems to have been a disappointment almost everywhere. Falling on a Tuesday, it was a short holiday for many. And in many places the weather was anything but cooperative. At the shore, when "Father Neptune unlocked the ocean," it was too cold for a swim. In parts of the Pocono Mountains, early vacationers were treated to a series of snow squalls.

By the middle of June, however, a miniature heat wave had changed all this. The week-end crowds came out in some force. Cash registers had that familiar jingle. And landlords and merchants were heard to speak in more glowing terms about the spending patterns of this year's vacationers.

Advance reservations are a hopeful sign

Hotels and motels in both shore and mountain resorts appear to have good bookings for July. Some even claim their business is running well ahead of 1960. Cottage rentals were said to be slow for a while and much the same was true of housekeeping apartments. But in the past several weeks the choice in these types of accommodations has narrowed considerably. Camps for both adults and children seem to be looking for the full use of their facilities over much of the season.

Most landlords say they experience little difficulty in booking July business. It seems to be the choice month for lots of people, partly because so many industrial plants close for one or two weeks. High occupancy in August sometimes is another matter. It is conceivable that a better situation may develop this year because Philadelphia schools are having a five-week summer session for elementary grade pupils. This runs through most of July, will be attended by some 40,000 children, and could delay vacations for an appreciable number of families.

FOURTH OF JULY WEEK END

"A tremendous holiday week end" was the expression we heard from resort people describing the four-day period that ended Independence Day. Because so many employers decided to close shop from Friday night until Wednesday morning, it turned out to be an unexpectedly long holiday for a lot of people. Good breaks in the weather kept most places "on the sunshine trail," contributing importantly to the excellence of the over-all picture.

From all accounts, the visitors who crowded our resort areas to celebrate the "Glorious Fourth" also turned out to be good spenders. Both landlords and merchants say they liked what they saw. And by Monday afternoon bankers, too, were becoming enthusiastic over long lines of depositors at their tellers' windows. Vacancy signs for all kinds of accommodations disappeared very early in the week end. Restaurants were in business again in a big way. Cash registers jingled merrily in boardwalk gift shops and on amusement piers. Swimming pools, golf courses, in fact all sorts of recreational facilities at shore and mountain resorts, came in for a full share of vacationers' patronage.

To be sure, one such week end does not necessarily set the pattern for a season. But this first big one of the summer seems to have gone a long way toward reinforcing the high degree of optimism our resort people have been expressing right along.

Reservation periods show little change

Although vacation time allowances for more workers are becoming progressively longer, resort people tell us that length of stay still seems to run the traditional one or two weeks. About the only exceptions are some cottage rentals and possibly attendance at camps, where minimum reservations may be for a month or half a season. Many families appear to be dividing their time in more than one resort or they may return to the same spot later in the season. Others take

a trip and spend their remaining time and money in a lot of places. Improved highways and the almost meteoric rise of the motel have been equally important factors in the increased mobility of vacationers in recent years.

Rates and rentals remain firm

Our inquiries turned up no significant changes in hotel or motel rates or in rental schedules for cottages. In a few cases improved facilities like an indoor swimming pool, or other major recreational features, prompted small increases this year. The only downward adjustments were reported in some of the older guest houses, where competition with the newer, more up-to-date motels has become a factor. Although both peak- and off-season rates have shown remarkable stability in the past several years, there has been a noticeable effort to lengthen the heart of a season by introducing special events in one form or another. Most of this effort has been directed to the post-Labor Day period, mainly because early season weather seems to be so full of unpleasant surprises.

Construction activity centers in cottages

Most of our shore resorts are reporting a somewhat slower pace for construction, now that the feverish era of motel building seems to have passed. Cottages are a more important factor this year. However, most of them are built for an ever-growing number of permanent residents and will add little to a resort's vacationing facilities. Most landlords see this as a healthy development. Much the same situation prevails in the Pocono Mountain resorts, where a large part of this season's activity covers cottage and cabin building for owner occupancy. The area around Lake Wallenpaupack seems to be experiencing the greatest expansion of this sort.

Renovation helps the construction total

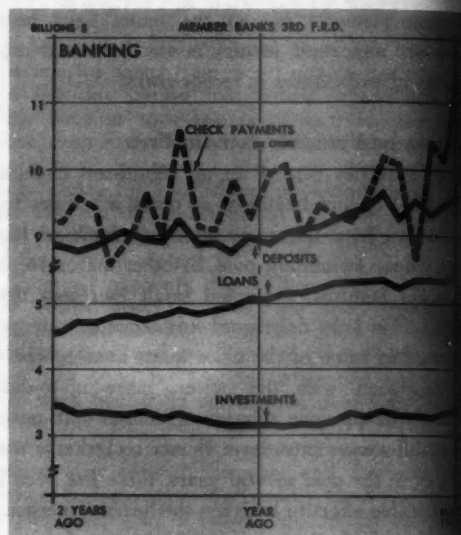
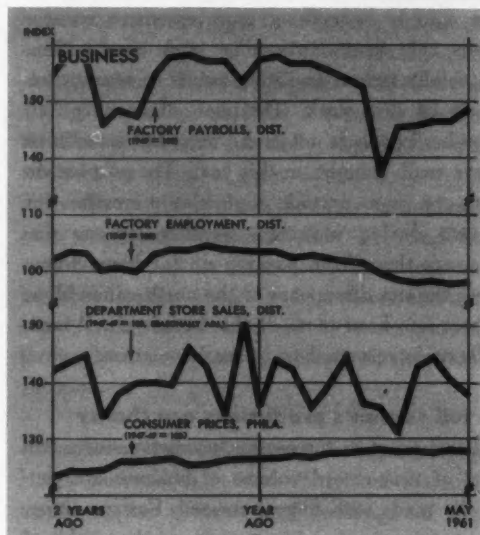
Some hotels, and even a few of the newer motels, are said to be making more extensive renovations this year. Swimming pool construction, especially indoor facilities, seems to account for most of this work. The idea of making "all weather" pools is not brand new; but it seems to have really caught on this year. The purpose, to be sure, is to provide a popular recreation for guests during inclement weather and so discourage them from packing up for home whenever the sun disappears or the north winds blow. There has been more of this activity in Pocono Mountain resorts than in seashore areas.

A full season's predictions are chancy

At this point in the season, predictions of a record or near-record volume of business are generally made with fingers crossed. For one thing, long-range weather forecasts have a bad habit of straying off the beam. So, the present prospect of a warm and reasonably dry July and August must be taken with a grain of salt. What actually happens could make or break this resort season. Moreover, come rain or shine, the spending patterns of vacationers frequently are hard to appraise accurately until sometime after the peak season "kick off" date—Independence Day.

Nevertheless, resort people in the Philadelphia Federal Reserve District are optimistic—maybe even a little more so than in some other years. On the basis of what they have seen so far, the consensus clearly indicates that another excellent season is beginning to shape up. Some have ventured the opinion that 1961 resort business may rank among the best experienced in recent years. Continuing improvement in this area's over-all economic picture lends support to this view. Good breaks in the weather over the next ten weeks or so might prove to be the "clincher."

FOR THE RECORD...



SUMMARY	Third Federal Reserve District				United States			
	Per cent change				Per cent change			
	May 1961 from		5 mos. 1961 from year ago		May 1961 from		5 mos. 1961 from year ago	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
MANUFACTURING								
Production.....	+7	+2	-4	.....	+2	-2	-6	.....
Electric power consumed.....	+1	-8	-6	.....	.....	.....	.....	.....
Man-hours, total*.....	+1	-5	-5	+1	-4	-5	.....	.....
Employment, total.....	+1	-6	-6	.....	.....	.....	.....	.....
Wage income*.....	+20	+10	0	+6	+5	+4	.....	.....
CONSTRUCTION**								
COAL PRODUCTION	+12	-8	-17	+4	-7	-13	.....	.....
TRADE***								
Department store sales.....	-2	+1	-2	-3	+1	-1	.....	.....
Department store stocks.....	+2	-1	.....	+1	+1	.....	.....	.....
BANKING								
(All member banks)								
Deposits.....	+1	+8	+6	+1	+8	+6	.....	.....
Loans.....	+1	+8	+8	+1	+3	+4	.....	.....
Investments.....	+1	+5	+4	+1	+13	+11	.....	.....
U.S. Govt. securities.....	+1	+6	+5	+2	+14	+12	.....	.....
Other.....	+1	+3	+1	+2	+11	+8	.....	.....
Check payments.....	+12†	+14†	+7†	+12	+15	+9	.....	.....
PRICES								
Wholesale.....	0	+1	0	-1	0	0	.....	.....
Consumer.....	0†	+1‡	+2‡	0	+1	+1	.....	.....

*Production workers only.
 **Value of contracts.
 ***Adjusted for seasonal variation.

LOCAL CHANGES	Factory*				Department Store†				Check Payments	
	Employment		Payrolls		Sales		Stocks			
	Per cent change May 1961 from		Per cent change May 1961 from		Per cent change May 1961 from		Per cent change May 1961 from		Per cent change May 1961 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Lehigh Valley...	0	- 6	+ 2	-10	....	....	....	....	+11	+ 4
Harrisburg.....	+ 1	- 6	+ 5	- 2	....	....	....	....	+ 8	+12
Lancaster.....	0	- 3	+ 2	- 1	-29	- 2	+ 2	+ 1	+12	+ 6
Philadelphia....	0	- 5	+ 1	- 3	- 1	+ 2	+ 1	0	+13	+12
Reading.....	+ 1	- 6	0	- 7	- 6	- 4	- 7	- 8	+15	+20
Scranton.....	- 1	- 4	+ 1	- 4	- 7	- 1	- 1	- 6	+15	- 1
Trenton.....	+ 4	- 9	+ 8	- 5	- 1	+ 1	- 2	+ 9	- 5	+30
Wilkes-Barre...	- 1	- 6	+ 1	- 7	+ 2	- 1	0	- 7	+12	+ 7
Wilmington...	+ 1	- 7	+ 5	- 5	+ 3	+ 4	+ 3	+ 1	+13	+10
York.....	0	- 4	0	- 1	- 9	0	0	- 4	+ 9	+ 3

*Not restricted to corporate limits of cities but covers areas of one or more counties.
 †Adjusted for seasonal variation.

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